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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 27, 1998

APPLICATION OF

ROANOKE GAS COMPANY

CASE NO. PUE970420

For implementation of a Pilot  
Gas Cost Hedging Program

ORDER CONTINUING PROGRAM

On July 24, 1997, the Commission entered an order authorizing Roanoke Gas Company ("Roanoke" or "Company") to engage in a pilot program to employ financial hedges for up to 25% of its normal winter demand for natural gas service. This program was authorized for a one-year term, beginning August 1, 1997.

On April 15, 1998, the Company filed its Report on the results of the pilot and requested an extension of the pilot program for an additional two year period. Roanoke reported that it negotiated financial hedging contracts on a total of 700,000 decatherms for the 1997-98 winter heating season. The financial instruments had the effect of capping Roanoke's price of gas for this volume of purchases to \$3.50 per decatherm and setting a floor price of \$3.15 per decatherm.

The Company's hedging activity resulted in a loss of \$171,040, which the Company attributes to the warmer than normal

temperatures that had the effect of keeping gas prices unusually low.

Despite the losses on the hedging activity, Roanoke's customers enjoyed lower bills than the previous year because of these lower gas prices. Further, there appears to have been significantly less price volatility in Roanoke's customers' bills, compared to the 1996-97 winter heating season. This reduction in volatility was an expected outcome of the program.

Roanoke has now asked for a two-year extension of the program in order to test the program's efficacy in a price arena consistent with more normal weather conditions. The Company has asked to modify certain aspects of the pilot as well. For instance, it will now solicit competing proposals on a variety of financial options, rather than working with a single financial institution as it did during the first year of the pilot. The Company further believes that if it can enter into these arrangements earlier in the summer, better pricing options may also be available to it. Our Staff has advised that it concurs with the Company's request. Accordingly,

IT IS ORDERED that the Request for Pilot Continuation is granted for a two year period ending July 31, 2000. The Company shall file interim reports on annual results of the pilot on or before April 15, 1999, and 2000, and a final report on the aggregate results of the pilot or before October 1, 2000. The Company shall also file copies of any financial instruments

executed under this program with the Divisions of Energy Regulation and Economics and Finance promptly upon execution thereof, together with a description of the method it utilized in selecting the instruments executed from the competitive bids received.